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CLASS. CHANGED TO: TS S C
NEXT REVIEW DATE:
AUTH: HR 70-2
DATE: 12-12-4

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DRAFTOFFICE OF REPORTS AND ESTIMATES, CIA
FAR EAST/PACIFIC BRANCHINTELLIGENCE HIGHLIGHTS NO. 14
WEEK OF 10 AUGUST - 16 AUGUST 1948

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

Japan's attempts to procure the greater part of its immediate iron ore needs from sources other than the USSR will, if successful, deprive the latter of an economic weapon for the orientation of Japan to the Soviet Far East (page 3).

The Soviet attack on SCAP's recent letter regarding trade union rights in Japan is unlikely to force a recall of the SCAP "suggestions", which already have been implemented by the Japanese government (page 4).

Autocratic exercise of power by Korean President Rhee may prejudice his claim for "National Government" recognition at the UNGA meeting (page 4).

The military position of the Chinese Nationalist forces at Tsinan appears to have eased (page 6). However a new reorganization of the Nationalist military establishment may result in more confusion rather than greater efficiency in the prosecution of the war (page 6). Meanwhile, the Chinese Communists are increasingly active in unifying their organization throughout China (page 6). In the near future the National Government may introduce far-reaching economic reforms, but there is little prospect that such reforms if attempted, will achieve any substantial improvement (page 6).

Although the immediate threat to Rangoon appears lessened, a prolonged period of ineffectual governmental control in Burma is expected (page 9).

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SUMMARY (continued)

A Dutch charge of Republican opium traffic is further complicating the work of the Good Offices Committee in Indonesia (page 10).

Armed clashes in the Philippines between the Constabulary and the Huks continue to appear imminent despite conciliatory moves by the Government (page 10).

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The French sponsored Xuan government in Indochina, while awaiting approval in Paris of the 5 June, Franco-Vietnamese agreement, is functioning with only limited powers and in an atmosphere of extreme pessimism and frustration (page 11).

The prestige of the Australian Labor Government appears to have been weakened by a High Court invalidation of the Bank Nationalization Act (page 12).

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SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

GENERAL

Japan turns to sources other than the USSR for the greater part of its iron "A" ore requirements

The US Political Adviser in Tokyo states that by 1 December, the immediate shortage in the Japanese iron ore program will have been made up. He had previously indicated his concern that the willingness of the USSR to sell Japan Sakhalin iron ore as contrasted with difficulties in procuring it from Japan's "normal" markets in the Far East might lead to an increased dependence by Japan on the USSR. (See B/FE Weekly 29 June - 5 July 1948).

According to the Political Adviser four contracts for iron ore have been signed since 8 July, totalling 590,000 tons, which includes 40,000 tons from the US, 200,000 from Hainan, 150,000 tons from Malaya and 200,000 tons from China. Negotiations are still under way for an additional 540,000 tons, which includes a possible 10,000 tons from Sweden, 50,000 tons from the USSR, 125,000 tons from India, 105,000 tons from the Philippines, and 250,000 tons from North or South America. Inasmuch as some skepticism exists as to China's ability to fulfill its contract, an option has been taken on additional Malayan iron ore.

Successful procurement by Japan of the greater part of its iron ore requirements from sources other than the USSR would deprive the latter of an opportunity to exploit Japan's dependence upon Soviet controlled areas for a vital commodity. Soviet prospects for orienting the Japanese economy towards the Soviet Far East would be correspondingly reduced, and concomitantly the USSR would be denied an economic weapon for the furthering of Soviet political objectives toward Japan.

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JAPAN

Soviet representations on Japanese labor policy unlikely to succeed. The attack by the acting Soviet member of the Allied Council for Japan on SCAP's recent letter regarding the trade union rights of Japanese workers is unlikely to force General MacArthur to recall his suggestions which have already been implemented by Cabinet ordinance. The Soviet representations will, however, provide moral support for the Japan Communist Party and the government workers' unions. Such support will aid in the unions' struggle against the restrictions which deny to all government workers the right to strike. Government workers comprise virtually two-fifths of Japan's 6.5 million trade union members.

"B"

In the absence, as yet, of parallel criticism by representatives of other members of the Allied Council or the Far Eastern Commission on this phase of Occupation policy, the Soviet denunciation complicates the efforts of those Japanese critics who are seeking modification of the revisions in the National Public Service Law when the provisions of the temporary cabinet ordinance come before the Diet to be made firm. The Japanese Socialists who have remained in the government in order to push these modifications are finding it difficult to agree upon delimitations of government workers rights which would be acceptable to their conservative partners in the government on one hand and to labor on the other. The problem which the Socialists face is that of determining the extent of the concessions which they can wring from the Democrats and the Peoples' Cooperatives on the threat of immediate withdrawal from the Cabinet without compelling the fall of the Ashida government. Such fall would result in the formation of a more conservative government and more stringent restriction of labor.

In this gambit to safeguard the trade union interests of the government workers the Socialists are seeking the political support of Japanese labor which threatens to move to the Communists under the pressure of economic issues. The Socialist gamble suffers from an apparent lack of international support.

KOREA

Four members of the UN Commission have voted to consult with the government of President Syngman Rhee. India, Australia and Canada have refused on the general grounds that consultation would constitute tacit recognition of the new government as a unified national government. Although the reluctance of these three powers to accord provisional recognition may disappear at the Paris meeting of the UN General Assembly (UNGA), President Rhee, by autocratic exercise of his power, may cause important Korean rightist and moderate groups to withdraw support from the govern-

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KOREA (Cont.)

ment and to renew participation in a North Korean-inspired "unity" movement, thus seriously prejudicing Rhee's claim for "national government" recognition at the UNGA meeting.

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CHINA

The situation in Tsinan appears temporarily eased with Wong Yao-wu's "B"
defenders reported to be 108,000 strong, as opposed to the reported 200,000
Communists. Any immediate attack on this Shantung stronghold is not believed
likely in view of the price the Reds would be forced to pay for a successful
assault against this well-fortified city.

Another reorganization of the Nationalist military establishment has "B"
come about as a result of the recent Military Conference held in Nanking.
The Central and East China Commands are to be reorganized. The Central China
Command, under Pai Chung-hsi, is scheduled to have three Army Groups con-
sisting of a total of twelve divisions. The East China Command, under Liu
Chih will also be organized into three Army Groups totaling approximately
eleven divisions.

This reorganization is viewed as just another routine shakeup in the "B"
Nationalist military establishment and will have little or no effect on the
overall picture. The divided command will very likely result in more con-
fusion.

Fu Tso-yi launched his most successful drive to date in his campaign "C"
against the Communists in eastern Hopeh. This week in a three-pronged
pincer operation Fu's troops, while failing to trap the Reds as planned,
succeeded in driving them north into Jehol and west towards Chiangchukuan.

Student demonstrations in Mukden followed the arrest of alleged Com- "C"
munist leaders of the recent agitation there. While the authorities appeared
to have quieted the earlier disturbances, arrests of this nature may foment
further trouble. The discontent in Manchuria will probably continue to flare
up at the slightest excuse.

A national trade union organization will be formed by the Chinese "B"
Communists at the Sixth All-China Labor Congress which has been meeting in
Harbin. A unified effort to increase industrial production and intensify the
political offensive against the National Government were the main themes of
the Congress, which was attended not only by delegates from Communist areas
but also by representatives of secret trade organizations in such Nationalist
areas as Shanghai and Hankow. The activity of the Congress appears repre-
sentative of a general Communist trend toward unifying their organization
throughout China.

The existence and imminent release of an overall economic reform program "B"
have been revealed to ECA officials by the Chinese Government. The details
of this program have been a closely guarded secret, but as generally outlined
to US officials it will include measures to increase taxes, reduce government
expenditures, encourage exports, and increase bullion and hard-currency

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holdings of the Government. This program is believed to represent the strongest efforts by the present Chinese Government for self-help in the economic field. However, its promulgation would involve considerable risks, and it is unlikely that such a program could produce any substantial improvement in the general economic situation.

The National Government's budget for the last six months of 1948 will "B"
be approximately CN\$ 324 trillion, according to a recent announcement of Chiang Kai-shek. Approximately one-third of this total will be directly appropriated to military expenditures and of the remainder about another third will be spent indirectly for the military establishment. The Government hopes to meet the expenditures in the announced budget by revenue derived from taxes, sale of government assets, proceeds from state enterprises, and customs revenue. At the current blackmarket rate the announced budget amounts to approximately US\$32 million - a modest sum and one that could probably be raised by an effective administration of the Government's sources of revenue.

It is important to note, however, that in addition to the official, publicly announced budget, there is an "extraordinary" budget, the details and amounts of which will not be made public. This extraordinary budget will undoubtedly be used in its entirety in financing the civil war. It is estimated that the Government has planned to appropriate at least an additional CN\$ 600 trillion for this purpose. There is no doubt that this sum will be provided by the expedient of printing additional money. This will, of course, increase the forces of inflation and in itself make the present budget estimates entirely academic. Thus the budget for the first six months of this year was originally estimated at CN\$ 96 trillion, but was actually many times this amount by the end of the budget period.

Prices and Currency. Despite rumors of impending currency and fiscal "C"
reforms, prices continued to rise through the week, as usual hitting a peak on Saturday when the retail price of rice was reported at CN\$ 75,000,000 per picul and black market exchange at CN\$ 12,000,000 to one. CN\$ 5,000,000 notes (250,000 Customs Gold Units) were released 16 August in order to meet the mid-month Shanghai payrolls which increased 95% in two weeks.

No removal of industrial equipment from North China has been discovered "B"
by the Peiping and Tientsin Consuls who have canvassed many sources including the Kailan Mining Administration and ECA. The reported instructions from Nanking several months ago calling for removal of certain industrial facilities to the South have aroused intense local opposition. Export-Import Bank and ECA officials have hesitated to approve certain North China projects until they are sure of full Nanking support.

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The application to the National City Bank of the Chinese 1946 and subsequent Income Tax Laws has been used by the US Embassy at Hanking as a specific case for a protest to the Chinese Government on the grounds of a) discrimination, because US corporations having head offices outside of China are classified as partnerships, which pay higher taxes than would apply to Chinese corporations, and that this discrimination is inconsistent with the 1943 Sino-US treaty, and (b) that the 1946 assessment is invalid and thus cannot be a basis for provisional assessment of the 1947 tax; also that denial of opportunity for administration or judicial relief against 1947 provisional assessment is inconsistent with Art. 16 of the Chinese Constitution.

"C"

<u>The Shanghai Market:</u>		<u>US \$ Exchange (Selling Rate)</u>		<u>Wholesale Price of Rice</u>	<u>"C"</u>
		<u>Official "open"</u>	<u>Blackmarket</u>		
This week	(12 Aug 48)	CN \$480,000	CN \$10,500,000	CN \$49,500,000	
Week ago	(5 Aug 48)	480,000	7,700,000	39,500,000	
Month ago	(12 Jul 48)	480,000	4,400,000	24,000,000	
Year ago	(12 Aug 47)	12,000	41,000	410,000	

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BURMA

Immediate threat to Rangoon lessened but prolonged period of ineffectual government control expected. Recent successes against mutinous army units appears to have restored some of the Burmese Government's confidence in coping with its serious difficulties. Control of military matters by committee has apparently been abandoned in favor of granting Lt. Gen. Smith Dun, a Karen and the competent Chief of Staff of the Burmese Army, a free hand in the conduct of military operations. The loyal military units still under his command are largely Karens, Kachins and Chins whose military qualities are considerably higher than those of the Burman. If these units are judiciously utilized they probably will disperse the rebellious Burman troops whose forte is guerrilla warfare and who dislike discipline and frontal engagements. Although the immediate threat to Rangoon would then be removed, there are not enough of these loyal forces to completely crush the opposition. "A"

The chances of the present Government to reassert its control over all of Burma are slim. Two developments seem to be necessary before stability can be restored. First, the Government, and the Anti-Fascist 'Peoples' Freedom League, the government party, will have to be drastically reorganized and must acquire new and much more forceful leadership. The only prominent figure at present who might be able to provide such leadership is Dr. Ba Maw, the wartime Japanese puppet dictator of Burma who has been held in general disrepute since the war and has been in semi-retirement. Nevertheless, he is an opportunist, a shrewd politician and an experienced administrator. Ba Maw is not likely to accept any governmental position unless it is the Prime Ministership and unless he is granted sweeping powers. He undoubtedly has been planning to return to power at an opportune moment which may soon be at hand. Second, foreign assistance will be necessary to maintain any government in the foreseeable future. Although India and China probably would like to intervene, they are too engrossed in their own internal problems. The UK, however, can offer limited assistance, but appears to be awaiting developments, particularly as they affect the considerable UK interests in Burma.

Should the Government fall, which will be from economic deterioration as much as from rebel military action, it is highly improbable that any succeeding governments will be any more effective. Any rebel coalition government would be incapable of completely wiping out the forces that are now loyal to the present Government, and would almost certainly encounter vigorous opposition from various minority groups. Furthermore, that there is no evidence of active liaison between the various rebel groups which includes the relatively well-organized Communists. These groups appear to be unified only in their opposition to the present Government and antipathy towards "capitalism and imperialism." They, too, have no outstanding leadership and very likely would begin fighting among themselves, possibly even before the Government was overthrown. In short, a prolonged period of unrest in Burma, bordering on chaos, is anticipated.

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INDONESIA

Dutch charge of Republican opium traffic further complicates work of GOC--An allegation by the Netherlands delegation that the Republic has been exporting opium illegally to Singapore and the Philippines transmitted in a letter to the Good Offices Committee (GOC) further complicates the resumption of GOC negotiations scheduled for late August. The Dutch charge that the opium is now being sold by the Republican Government under the direction of Finance Minister Laramis and that it is the chief source of Republican foreign exchange. The Dutch assert that in carrying on this activity, which is contrary to an international convention on opium to which the Netherlands Government has acceded, Republican officials have abused privileges and facilities, including US planes, made available for the conduct of negotiations between the two parties. According to the letter the Netherlands Indies Government may: (1) prosecute certain members of the Republican negotiating delegation; and (2) search the personal effects of Republican delegates on leaving or entering Netherlands-controlled territory.

"A"

This latest move as well as the recent Netherlands Government's decision to take action against Communists in Indonesia and its approval of a plan formulated by non-Republican Indonesians for an interim government prior to the establishment of the United States of Indonesia makes clear the Dutch determination to reassert their control over Indonesia, thereby embarrassing the GOC.

PHILIPPINES

Constabulary resumes police duties in central Luzon. The Philippine Constabulary, after ceasing anti-Huk operations in mid-May, has resumed regular patrolling of central Luzon as most Huks continued to retain their arms beyond the legal 15 August registration deadline. Several Constabulary commanders, who had been temporarily relieved of their duties, apparently at the Huks' request, have been restored and armed clashes between the Constabulary and the Huks continue to appear imminent despite the conciliatory mood demonstrated by both President Quirino and Huk leader Taruc.

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Meanwhile, only a small number of Huks with an insignificant number of weapons are reported to have registered although large numbers of the unarmed PKM (National Peasants' Union) are said to have presented themselves. President Quirino has apparently refused to accede to Taruc's plea that the Huks be permitted to retain their arms although it has been stated that late registrations would be acceptable if there is justifiable excuse. The President has indicated that the Government would not tolerate the existence of a private army and has ordered that the landowner-supported "civilian guards" also be disarmed. While the Government has failed to secure sizeable arms registrations under its amnesty program, President Quirino will probably continue to exert strong efforts to maintain peace by giving Huks the benefit of every possible legal consideration and

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awaiting approval in Paris by the French Assembly of the 5 June Baie d'Along Agreement, functions with only limited powers and in an atmosphere of extreme pessimism and frustration. Little hope is held by nationalists associated with the provisional government for any real concessions, particularly in view of the close vote (288-286) by the French Assembly in placing the question on the agenda. The Vietnam government itself appears beset by internal difficulties. Some of the ministers have already threatened resignation and the Governor of North Vietnam is reportedly in disagreement with the president of the provisional government, General Nguyen-van-Xuan.

After the vote to place the question on the Assembly agenda, Premier Marie discussed aspects of the Indochina problem at a cabinet meeting and in a private session with French High Commissioner Bollaert and Overseas Minister Coste-Floret. The Cochinchina question, which involves a change in its colonial status to allow entry into the unified state of Vietnam, appears to be no closer to a solution. Coste-Floret's declarations in mid-June to the effect that unification of the three Vietnamese states required not only French Assembly agreement but also approval by the people of Cochinchina, has resulted in less confidence in Paris in the Bollaert-sponsored plan for Vietnam, since a referendum in South Vietnam (Cochinchina) under the present conditions is obviously impossible.

The French Assembly, before it adjourns, may possibly approve the 5 June accord, but it may by-pass the Cochinchina issue for the present or tie a referendum to any final agreement to a change in the area's status. It is not expected that such action as the French Assembly may take at this time will bring the stalemate in Vietnam to an end nor that the Xuan Government will be strengthened to a point where it is likely to be successful.

AUSTRALIA

Labor Government weakened by High Court invalidation of Bank Nationalization Act. The political prestige of the Labor Government and perhaps that of Dr. Herbert V. Evatt, Federal Attorney General who personally pleaded the case for the Commonwealth, has been considerably weakened by the unanimous decision on 11 August, of the Australian High Court invalidating vital sections of its Bank Nationalization Act. The speed with which the Labor Government presented and passed the legislation, long a Labor Party platform plank, and its refusal to consider a referendum in the face of vocal opposition, alienated many Australians who would have held no strong opinion on the measure.

All justices ruled the plan a violation of the Australian Constitution which provides that "trade, commerce and intercourse among states shall be absolutely free." The Government was restrained from implementation of the act and ordered to pay all court costs. Prime Minister Chifley has indicated that he intends to appeal the decision to the Privy Council in London, the supreme judicial authority for the United Kingdom.

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